



# IPI Energy Security & Strategic Conflicts

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PIPS

Progress on Iran-Pakistan-India (IPI) gas pipeline, also known as 'Peace Pipeline', has been inching forward since its inception in the early 1990s though much ambitious and dynamic rhetoric has been in action after the revival of negotiations in February 2004. The US\$ 7 billion (a re-estimated project cost), 3,000-kilometer pipeline venture, after originating from Iran's southern port city of Asalouyeh and traversing through the rugged and restive provinces of Balochistan and Sindh in Pakistan, would see its final destination in New Delhi and Mumbai in India. All the three countries are currently hammering out contentious issues like gas prices, transportation tariffs, pipeline security and the latest snag, Iran's right to review the gas price.

During talks in July 2006, negotiations stalled when Tehran demanded a higher price per mBtu (million British thermal units) against what New Delhi and Islamabad had to offer. Even after India and Pakistan agreed to pay US\$ 4.93 per mBtu this February, Iran insisted that the countries should understand 'market realities' when dealing with such a long-term project, arguing that prices should be reviewed every three years. India and Pakistan, nonetheless, wanted US\$ 4.93 per mBtu to remain basis of pricing of natural gas for the entire 25-year duration of the contract. As per the proposed contract, 60 million metric standard cubic meters of gas per day would be available to India and Pakistan (split equally) in the first phase of the project.

India, Pakistan and Iran started a final round of discussions on June 27 in New Delhi to resolve differences on the pipeline before the three nations could sign a final deal. Price revision clause (asserted by Iran) remained contentious whereas Pakistan and India agreed on transportation tariff of 0.70 dollars per mBtu, demanded by Pakistan; India previously was not willing to pay more than 0.55 dollars per mBtu (\$220 million annually). As regards the transit fee, Pakistan has been demanding transit fee for the whole stretch of the pipeline from Iran to Indian border. But India feels that since Pakistan will also use the pipeline, it should only pay for the extension of the project to its border. Moreover, Pakistan is seeking a transit fee of 0.493 dollars per mBtu while India has offered 0.20 dollars per mBtu.

Another issue that could jeopardize the project is the physical security of the pipelines, especially in the volatile regions of Pakistan. A January 2005 incident in which Baloch rebels launched a series of attacks on the Sui gas field, disrupting fuel supplies in Pakistan, still has India worried. Though Pakistan has agreed to post a heavy guard on the portion of the pipeline that runs through its territory, India is holding out for a commitment that transcends politics and paperwork. India is seeking a strong moral and ethical commitment from both Iran and Pakistan should relations turn sour and endanger the project midway.

Hurdles and pressures notwithstanding, it seems that all three nations are interested in moving forward with the IPI for its clear economic, political and strategic benefits. Despite the remaining unresolved issues, one positive conclusion can be drawn from Iran's Petroleum Ministry representative Ghanimi Fard, who expressed strong optimism on the sidelines of a Delhi meeting in late June. Fard indicated that Iran would start sending natural gas from its South Pars gas field by 2011 at the latest.

For now, all eyes are on the forthcoming ministerial level meeting, which will possibly obliterate the remaining hurdles, including the periodic price revision clause, before the three heads of state sign off on the pipeline dream.

#### **India:**

Developing Asian economies and populations- particularly India and Pakistan- are major contributors to the increased energy demand. India is the sixth largest energy consumer in the world. One alternative to increased oil consumption for India is to shift to natural gas, which diversifies supply options. For India, the options to import gas from the Caspian Basin, particularly from fields in Turkmenistan and Iran, have been actively discussed for almost two decades at the academic, government, and industry levels.

India has been anxiously looking for some sort of materialization to its 3 mostly followed (proposed) gas pipelines besides LNG imports: Gulf-Iran-Pakistan-India, Turkmenistan-Afghanistan-Pakistan-India and Iran-Pakistan-India pipelines. The latter two are in the limelight. The major impetus for this energy pull for India is its deteriorated domestic energy sector and energy needs increasing by more than 100 per cent. The development of India's energy market has been constrained by domestic factors, including the failure to implement energy sector reform. India's electricity industry is in disarray, and is plagued by massive (1) subsidies to the agricultural sector, which consumes almost one third of current Indian power output. Moreover, (2) power theft poses a significant problem—one quarter of power produced “simply disappears”. India also suffers from (3) insufficient generating capacity. India would need to build at least one new power plant per month—each with a 1,000 megawatt annual capacity—for the next, at least, 10 years to keep pace with its growing energy needs. International investment in India's power sector was threatened by a major contract dispute between the Indian government and the international energy giant, Enron, which had invested \$2 billion in Indian power plants.

Second, geopolitical issues have further been constraining and delaying Caspian-Indian pipeline projects. Afghanistan has been delayed (though not ruled out) as a gas pipeline transit country given its chronic instability and ongoing civil war, which has resulted in the almost complete destruction of the country's infrastructure. Pipeline traversing Pakistan (IPI) is ‘near-to-mature’ option for India given its nuclear arms race with Pakistan, the long-term conflict over the disputed region of Kashmir, and the other border conflicts and water disputes remain subdued in the ongoing peace process aimed at economic prosperity of the region.

India had been showing interest in the trans-Afghan pipeline (TAP) project in the recent past (despite crumpled condition of Afghanistan), which would ship natural gas in Turkmenistan via Afghanistan to markets in Pakistan and India. The project has long been hampered by questions concerning pipeline security and the extent of Turkmenistan's reserves. According to Turkmen media sources, the country's president, Saparmurat Niyazov, had discussed TAP's prospects with visiting US Gen. John Abizaid, who visited Ashgabat in late August, 2005.

During his 2005 visit to Afghanistan, Indian Prime Minister, Manmohan Singh had said that both pipeline projects (IPI and TAP) needed to be realized in order for New Delhi to achieve the energy security that it seeks. “It is not a question of preferring one (pipeline) over the other”, Singh said during a joint news conference with Afghan President Hamid Karzai. “We need both pipelines... India's needs for commercial energy are increasing at an explosive rate.”

The visit of Indian Foreign Minister to Iran (February 6-7) was seen by analysts as a single-minded purpose -- to set a political climate in India's bilateral relations with Iran that will be conducive to the advancement of energy cooperation between the two countries. The timing of the visit, when the US was stealthily finessing a pretext for launching a military attack on Iran and prevailing on close allies and friends to stay clear of bilateral exchanges with Tehran, was very important. India, seemingly, is going indifferent to even issue of its nuclear ties with the US while pursuing the IPI pipeline. Much is at stake here. Did Washington make an exception for India, or was India, after all, never really belonging to the gallery of Washington's close or ‘natural’ allies? At any rate, New Delhi acted in its best interests when Indian Foreign Minister Pranab Mukherjee paid a two-day visit to Teheran and made it unequivocally clear in his media comments that India opposed any use of force against Iran.

Apart from underlining that expansion of relations with Iran is important for India, Mukherjee described Iran as a factor for stability in the region. That is to say, India disregards Washington's propaganda that Iran is a terrorist state that is threatening regimes in neighbouring countries. Equally, Mukherjee called for the Iran nuclear file to be sent back to the International Atomic Energy Agency as the competent forum to handle the

issue. In sum, Mukherjee made out with great poise and resoluteness that New Delhi had its own independent foreign policy toward Iran.

**Iran:**

After the United States shifted its strategic focus towards isolating the Iran politically and mutilating its Economy, the political and economic pursuits for Iran became more relevant. Iran exports only 2.34 million barrels of oil per day, about 300,000 barrels below its OPEC quota. With oil and gas exports accounting for half the government's budget and around 80-90 percent of total export earnings, this spells trouble for the regime, which already faces the worst economic crisis since the 1970s. Iran likes to flaunt its "second largest gas reserves in the world" status frequently, while offering reassurances that revenues from this project would be utilized for the "general economic development" of the country, not for building nuclear weapons or sponsoring terrorism.

Beyond the economic prospects, Iran is using the pipeline deal to gain political support on the international arena from the US allies, India and Pakistan. As such, the three-year price revision clause is imperative for Tehran to check bilateral ties in the face of hostile international diplomacy. Iranian officials argued that the price revision clause was merely a 'mechanism to study the market realities', which would help to maintain the "sanctity" of the contract. But the underlying meaning was that Iran wanted India and Pakistan to maintain the "sanctity" of bilateral relations with Iran in world forums like the UN's International Atomic Agency (IAEA), as well as with the EU and the US.

Iran and India have become major energy and even strategic partners, in spite of India's strong and growing ties to Israel and the United States. India's energy relations with Iran extend far beyond the IPI pipeline. In June, 2005, the two countries signed a 25-year deal, potentially worth up to \$22 billion, under which India would obtain 5 million tons a year of liquefied natural gas (LNG) from Iran. In connection with this deal, Iran granted development rights to India in two Iranian oil fields, potentially generating 60,000 barrels per day in production. In another deal, Iran awarded India development rights to a block in the North Pars gas field. Both countries have also pledged to explore joint investment projects in petrochemicals.

**Pakistan:**

Pakistan is better endowed in natural gas resources, with a proven capacity of 22 Trillion Cubic Feet (TCF), compared to the very meager finds of India. And the prospects for more discoveries in traditional and offshore fields are greater for Pakistan than for India. But still, Pakistan with an annual consumption of 0.7 TCF a year, and with a demand increase of about 10 percent a year, will have to import natural gas by around 2010.

While for India the pipeline is almost a must, Pakistan can afford to kill the project and reap many diplomatic and economic benefits without compromising on its energy security. The US advice for Pakistan will be to opt for TAP and drop IPI. Washington may argue that TAP is more beneficial for Pakistan because it would not have to rely on Iran given the latter's reputation of unreliable business practices (for example, last winter Turkey was not happy with the disruption of gas supplies from Iran). The then opted \$2 billion Turkmenistan-Afghanistan-Pakistan (TAP) gas pipeline would carry gas from Daulatabad in Turkmenistan via Herat, Afghanistan to Multan. For an additional \$500 million TAP can be extended to Fazilka on the Pakistan-India border and hence provide gas to India as well. At a later stage TAP could be expanded further to connect other fields in Central Asia to Gwadar, turning the new port into one of the world's most important energy hubs.

For Pakistan, nonetheless, IPI engulfs a marvelous opportunity to bury the hatchets with India, restore peace to the beleaguered region and open up a new vista of economic prosperity. There can be, of course, no peace in the South Asia till Pakistan and India are at daggers drawn and there would be, perhaps, no brighter chances of mutual reconciliation between the two countries than implied in this 'peace pipeline'.

India and Pakistan have in the past failed to understand the new dynamics of global energy politics. If they still don't realize that the flow of energy resources would continue to take a westward direction, and now, with China becoming a new player in the regional energy game, chances of their direct access to the energy resources of Central Asia would keep shrinking with every pipeline built away from them. Unlike oil, which can be transported in many directions in containers, natural gas has to take fixed routes through pipelines. These can only serve consumers on their route, which, once laid, cannot be changed. The question to ponder is, which way will the pipelines take the natural gas resources of Central Asia and the Persian Gulf regions?

For Pakistan-Iran bilateral relations, the IPI project would be a godsend because the two countries have not been good neighbors. Both have mostly been in opposite camps. Currently Pakistan is a key ally of the US whereas Iran is at the US target. It is also no secret that Pakistan and Iran were in opposing camps during the Mujahideen's war against Soviet occupation of Afghanistan in the 80s.

### **Regional Politics: Sino-Russian Stimulus**

Energy security is a subject where politics mixes with economics. Moscow has repeatedly shown interest in taking part in the financing and construction of the Iran-India gas pipeline. On the other hand China has already become a diplomatic supporter of Iran and a major beneficiary of its oil reserves. But the US has become increasingly frustrated by Tehran's work on a nuclear program. As the 'game' heats up, nations with skyrocketing energy demands continue to compete for finite resources.

Russian Deputy Prime Minister and Defence Minister Sergei Ivanov, who accompanied Putin to New Delhi (January 25-26), stated, 'We are pegging big hopes on the Gazprom-GAIL (Russian and Indian gas companies) strategic partnership, including joint efforts in building the Iran-Pakistan-India gas pipeline'. Without doubt, Russia will be actively supportive of the warming of Indo-Iranian ties, which went through a rough patch after India's vote against Iran at the IAEA in October 2005. Quite naturally, India and Russia share deep apprehension over Washington's aggressive stance against Iran. Any US military attack against Iran will threaten to have adverse consequences for India's energy supplies. Again, while Washington can be expected single-mindedly to try to scuttle Indo-Iranian energy cooperation, Moscow will encourage such cooperation and offer to be party to it.

Moreover, with Russia controlling 27 per cent of the world's gas reserves and Iran 15 per cent, cooperation between these countries is bound to have a huge potential in terms of global gas distribution. Major Asian gas consumers like India and China seek to optimally exploit the opportunities arising out of the matrix of Russian-Iranian energy cooperation.

Whereas the US favours European projects for diversifying gas supplies that will reduce the West's dependency on Russian supplies, China and India (and to some extent Pakistan) have a definite interest in Teheran's preference to direct the bulk of its gas resources to Asia. Asia cannot attach credibility to the US counsel to trust the market instead of trying to 'lock in' energy supply, while Washington is actively promoting various oil and gas-pipeline projects heading toward the European market from the Caspian and Central Asian regions.

Finally, while Washington may have plans for inveigling India as a counterweight to China, Moscow hopes to foster greater Sino-Indian understanding within which an Asian market of energy producers and energy consumers could flourish. History, after all, didn't end with the Cold War.

**America: Strategic Stakes & Twists**

The US government opposes the Iran-Pakistan-India pipeline, though it recognizes the growing energy needs of the south Asian countries involved in the project. Washington has continued to exert pressure on both India and Pakistan to shelve the project, using both carrots and sticks to get its message through. Washington fears that Iran's perceived nuclear weapons ambitions and links to international terrorism would gain material and moral strength if the project materialized. However, both India and Pakistan are determined to go ahead with IPI initiative.

Washington has huge economic and diplomatic sweepstakes in opening up Central Asian energy resources to the world markets. And the Americans want to ensure that this happens under the leadership of the US energy companies. Washington stands to lose major leverage over the entire strategic Eurasian region with the latest developments. On December 15 (2005), the state-owned China National Petroleum Corp (CNPC) inaugurated an oil pipeline running from Kazakhstan to northwest China. That pipeline would undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan oil pipeline which opened, not long before this Chinese initiative, amid big fanfare.

The feeling among many in Washington is that Iran is closer than ever to the abyss and by increasing the economic pressure the West can eventually bring about a regime change. (That is why any attempt by Iran's neighbours and clients to give its energy industry a shot in the arm is viewed by Washington as a quasi-hostile move). The US House Committee on Foreign Affairs Chairman Tom Lantos is promoting a bill — the Iran Counter-Proliferation Act of 2007 — that would hurt Pakistan and India's business ventures with Iran. If India insists on building the pipeline there are likely to be many calls on Capitol Hill to reconsider the nuclear deal that both countries are now trying to finalize by reconciling the differences that have arisen. In a similar anti-Iran attempt in March, the US did succeed in arm-twisting the UN Security Council into imposing tougher military and nuclear sanctions on Iran.

In sum, the ongoing global war on terror and American military engagement in many parts of the world has never derailed the America's strategic energy pursuits. In March 2005, US Secretary of State Condoleezza Rice travelled to Delhi for a crucial meeting with the Indian leadership. While there, she announced a broad-ranging energy dialogue with India which would cover future cooperation on all sources of fuel, including the hitherto taboo one, nuclear power. But she also stated, in public and in private, that the United States was opposed to India building a pipeline from Iran.

**A Pleasant Surprise!**

Given the pressure that America has traditionally brought to bear on the workings of the World Bank and the International Monetary Fund, the WB's verbal offer to "seriously consider" funding for the IPI gas pipeline comes as a pleasant surprise. Seen against this backdrop, it is intriguing that the World Bank has chosen to focus on the IPI project's financial viability instead of being guided to by the geopolitical interests of the United States.

Coming at a time when the WB is headed by a diehard neoconservative like Paul Wolfowitz, the views expressed on Tuesday (May 1, 2007) by the bank's vice-president for South Asia are indeed heartening. Pakistan is yet to request financial assistance for the IPI pipeline, he said, but stressed that such a request was likely to be viewed favourably. Whereas in 2005, during his trip to Islamabad, World Bank Head Paul Wolfowitz had clearly told the Pakistani leadership that the bank would not allow any international financial institution to finance the project.

**Prospects:**

- The prospects for the IPI pipeline are complex and unpredictable. India needs new sources of energy to achieve significant growth rates. Pakistan wants to project itself as a crossroads for trade between Central Asia and the Subcontinent, apart from getting gas for its domestic use. And both the countries see in IPI an opportunity of getting out of the regional conflicts. Iran needs to sell gas. But the ground realities are not fully favorable or supportive.
- American pressure on India and Pakistan has the potential to derail the pipeline peace process between the two or at least result in a stalemate. Pakistan, being a recipient of large sums of U.S. aid, could also be susceptible to consider the risks involved in pursuing a pipeline project against Washington's wishes. Therefore instead of pressing the issue, Pakistan may look for other options as well. The US-India nuclear deal also puts the bargaining lever into the hands of the US.
- And the most important is the history of mistrust and conflicts between India and Pakistan. The IPI pipeline that is being termed as a mean to erase the years-old animosity may itself become a victim of the bilateral mistrust. It looks an ideal situation that India may afford its energy security linked to Pakistan. India would need a strong commitment and enormous domestic support to be strategically dependent on Pakistan by accepting it as a transit route. The internal insurgency in Balochistan and the terrorism related threats don't bode well while taking India into confidence though the Pakistan may be offering a high security guarantee on its part.
- Given the ongoing debate in Iran on whether it should become a major gas exporter or focus on utilizing its vast resources for the country's own development, there is some uncertainty about the future of the pipeline project. Iranian President had recently indicated in a media interaction in Tehran that Iran may look seriously at offers from Thailand, China and Europe for gas supplies in the event of the price issue not being resolved. If Europe gas demand equals the amount (planned for export), no gas will remain for India and Pakistan. In that case, gas supply to India and Pakistan will be possible by lowering the figure. Europe's plans to diversify its gas supply involve Iran. Europe faces an acute gas shortage by 2015. A competitive struggle for Iranian gas between the European market and the Asian market has become unavoidable.